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REVIEW OF TRENDS, POLICIES AND PROSPECTS FOR TRADE IN PRIMARY COMMODITIES IN ENHANCING AFRICA'S EXPORT PERFORMANCE

INTRODUCTION

1. The decade of the 1980s for Africa has been characterized by ever-recurring crises of one sort or another, with the consequential unabated economic deterioration. No matter what socio-economic indicators are used, the region's situation has been one of significant and sometimes precipitous retrogression. On a yearly basis between 1980 and 1989, per capita income fell by 1.7 per cent, gross fixed capital formation by 1.9 per cent, export volumes by 2.7 per cent and commodity prices by 3.1 per cent while unemployment increased four times faster than in the 1970s. [1]

2. The general deterioration in Africa's economic and social conditions is a direct outcome of both the worsening domestic development setting and the extremely unfavourable external economic environment. Generally depressed and highly volatile world markets for primary commodities constituted one of the most important negative factors, given Africa's heavy dependence on exports of these products.

3. Concern with the commodity sector has been on top of Africa's development agenda for the past 25 years, because of its potential in terms of contribution to the economic growth of the continent had not been properly utilized, a view which materialized in a request by African countries, contained in General Assembly resolution 43/27 of 25 October 1988 on the Mid-term Review and Appraisal of the Implementation of the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990. This is what led to the establishment of a high-level expert group with the aim of formulating an appropriate strategy for the commodity sector. Consequently, the Group issued a report entitled Africa's Commodity Problems: Towards a Solution.

4. The purpose of this paper includes analysis of some of the findings and proposals made by the above group (the Frazer Group), particularly those related to the need for a new strategic approach to Africa's primary commodity sector. Following this introduction, the paper gives a brief overview of current trends and prospects for Africa's primary commodity exports, examines adverse world price developments and deteriorating terms of trade for African export commodities. Particular attention is focused on supply-side bottle-necks and consequent export sector failures as this is an area where immediate curative action could be taken by African countries themselves. Chapter II deals with an overview of internal constraints like the negative effects on commodity production for exports resulting from a combination of domestic policy measures including excessive price controls, overvalued exchange rates and stringent marketing systems.

5. Chapter III gives an illustrative picture of some of the measures which African countries attempted to take. In other words, the critical situation in the commodity sector has not been left without response on the part of most countries where various structural adjustment programmes were launched aimed at rehabilitating commodity production. Macro-economic policies in this area include liberalization of economic activities, re-alignment of exchange rates, improved resource allocation. The paper also analyses response from producers to policy reforms and concludes by suggesting several recommendations on measures required to improve performance of the primary commodity sector with a view to maximizing its contribution to Africa's economic development.

I. CURRENT TRENDS, PROSPECTS AND MAJOR PROBLEMS FACING AFRICA'S PRIMARY COMMODITY EXPORTS

6. Commodity trade determines the region's development targets, borrowing capacity and ability to service external debt. Its impact and implications transcend the entire spectrum of development policies. The experience of the 1980s shows that the collapse in the commodity prices was largely responsible for

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1 See ECA, Economic Report on Africa, 1990, United Nations Economic Commission for Africa, E/ECA/CM.16/3, p.3.

plunging many African countries into problems of economic recession and mounting debt-service obligations. Moreover, the commodity trade ceased to be the engine for growth as individual countries continue to find their policy options considerably reduced as a result of the poor performance of primary commodity exports. Several factors combine to aggravate the situation in this sector. The commodity crisis is perhaps the single most important issue facing African countries in their efforts to pursue economic recovery, growth and development.

A. High primary commodity export dependence

7. Africa's high dependence on primary commodity exports has always been the source of considerable preoccupation for the continent. Its dependence on primary commodities for export earnings is greater than in any other region and, moreover, has remained fairly the same over the last two decades. Revenues from these products normally account for between 85 and 95 per cent of total export receipts depending on price fluctuations. The share of the commodity sector in the GDP production is between 30 and 60 per cent and provides a similar share of gainful employment.

8. Export concentration on a few commodities remains exceptionally high. For instance, even when petroleum exporters are excluded, 20 African countries depend on a single primary commodity for over half of their export income. For some of them like Burundi, Uganda or Zambia, this figure exceeds 90 per cent. Further analysis reveals that 34 African economies derive over 50 per cent of export proceeds from just two commodities and for a large proportion of them this dependence goes beyond 60 per cent. For 27 countries this ratio exceeds 70 per cent of export earnings if three export products are considered.[2] Quite understandably, such a situation makes most countries extremely vulnerable to price fluctuations in world markets or other exogenous shocks.

B. Adverse price trends

9. Quite significant collapse in commodity prices was observed in the course of the 1980s, particularly against the 1980 peak level. The ensuing loss in revenue, both in magnitude and scale, was such as to produce significant disturbances in most African economies. In 1986 alone, the region lost about one-third of potential export earnings largely due to substantial price decreases.[3] Particularly important was the continued fall in export prices for coffee and cocoa which attained their 14-year lowest level in 1989. The devastating effects of these developments on a number of African countries, notably Côte d'Ivoire, the Central African Republic, Cameroon, Rwanda and Uganda have yet to be fully appreciated. Despite bumper crops and increased export volumes, revenues of African exporters of these products have been severely eroded. The 25-member Inter-African Coffee Organization estimated that losses to its members in 1990 would be around $US 1.5 billion due to depressed prices.[4]

10. Another set of problems is associated with the year-to-year price fluctuations. Consequent export earnings value differentials tend to disrupt economic activity even despite eventual favourable price developments in certain periods. For instance, fluctuations of export income from Guinea's bauxite or Burkina Faso's cotton very often exceeded 50 per cent of their trend value with quite important negative repercussions for their respective economies. Price instability, measured as a deviation of price from its exponential trend level, has only marginally decreased in respect of such African export commodities as

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2 Calculated on the basis of data provided in Africa's Commodity Problems: Towards A Solution, report by the United Nations Secretary-General Expert Group on Africa's Commodity Problems, UNCTAD/EDM/ATF/1, 1990, pp. 107-117.

3 ECA, Economic Report on Africa, 1990, E/ECA/CM.16/3, Addis Ababa, 1990, p.3.

4 Ibid., p. 28.

cocoa, coffee or tea during the 1980s in comparison with the preceding 15 years. Sugar is another example and although that index for sugar was somewhat lower than before, it still amounted to 65 per cent. For a number of mineral and agricultural products (e.g., copper, aluminium or groundnut oil), there was an actual increase in instability.[5] A fairly detailed account of relative price movements for selected primary commodities is provided in table 1 below.

11. As already mentioned in preceding paragraphs, the adverse price trends have largely resulted in substantial export earning shortfalls for African countries during the 1980s. To give but one illustration, in 1988 African non-fuel commodities earned $US 18 billion in international markets which was 26 per cent lower in real terms than in 1980 and 35 per cent lower than in 1970.[6] It should also be noted that price forecasts for most African commodities up to the year 2000 do not show any significant increases as the world demand is going to remain basically at the same volume levels. For instance, the World Bank estimates that export prices for cocoa, coffee, copper and cotton,[7] that they are currently close to their long-term trend, notwithstanding possible sharp fluctuations to be expected in the years to come. It is most unlikely, however, that there will be significant or lasting gains from improved price levels. In respect of copper, there is even a projection for a pronounced downward slide while prices for the other three commodities will fluctuate around present real levels.

Table 1. Export prices of selected primary commodities, 1981-1989
(index 1982 = 100)

	1983	1984	1985	1986	1987	1988	1989*
FOOD, BEVERAGES AND TOBACCO	107	111	95	89	83	101	106
Food of which							
Cereals	99	97	83	69	66	87	99
Maize	126	126	103	81	70	99	109
Rice	94	85	74	72	78	103	94
Meat	93	88	84	82	93	99	97
Sugar	100	90	84	96	104	120	120
Bananas	114	99	101	102	101	119	128
Beverages of which							
Coffee	102	113	107	137	86	93	98
Cocoa beans	121	137	130	118	115	91	84
Tea	120	178	102	100	89	92	95

5 UNCTAD, Commodity Yearbook 1989, New York, 1989.

6 Africa's Commodity Problems, pp. 15-16.

7 Sub-Saharan Africa: From Crisis to Sustainable Growth, International Bank for Reconstruction and Development, Washington, 1989, p.32.

Table 1 (cont'd)

	1983	1984	1985	1986	1987	1988	1989*
Tobacco	102	102	101	90	86	89	95
AGRICULTURAL RAW MATERIALS	101	114	93	99	138	151	149
of which							
Logs	93	112	91	100	147	155	152
Cotton	110	125	97	82	117	108	118
Rubber	125	112	88	95	115	136	130
Jute	92	178	202	91	107	124	124
MINERALS AND NON-FERROUS METALS (exc. petroleum)	105	99	93	88	104	155	179
Copper	107	93	96	93	121	175	219
Aluminium	145	127	105	116	157	257	223
Iron ore	92	89	86	83	85	88	101
Phospates	87	90	80	80	73	85	98
TOTAL OF ABOVE	106	110	95	91	99	123	130
CRUDE PETROLEUM	90	90	85	44	56	44	52
ALL COMMODITIES	96	98	89	64	74	77	85

Source: Calculated on the basis of GATT, International Trade 88-89, Geneva, 1989, Volume II, Table A17. The year 1982 was taken as a base because 1980 was characterized by exceptionally high prices for most primary commodities.

* 1st quarter

C. Deteriorating terms of trade

12. The terms of trade situation has not been particularly favourable to Africa during the last decade. In fact, from a peak in 1980 they worsened fairly steadily all througu the 1980s. According to UNCTAD calculations, terms of trade in 1988 fell by over 40 per cent against 1980 levels and around 12 per cent as compared with 1975 levels.[8] Viewed against the longer-term perspective, this deterioration still left Africa's terms of trade during the early 1980s better than in the 1960s. However, the situation was worse in 1986-1987 when compared with the 1960s and it has to be admitted that declining terms of trade have greatly affected the economic growth of the continent as a whole.

D. Poor export performance

8 UNCTAD, Handbook of International Trade and Development Statistics 1988, New York, 1989, tables 2.5 and 2.6.

13. It is worth pointing out that unfavourable price levels are not the only factor that depresses African exports of primary commodities. There are also questions of supply-side bottle-necks within the region itself that have a negative role to play regarding the disappointing performance of the sector. The magnitude of these constraints could be best isolated and measured in volume terms. For instance, during the 1960s the volume of exports from the region grew on an annual average of 6 per cent, but since 1973 have remained stagnant or declined in physical terms in respect of most products and countries. In 1989, export volumes contracted by 8.6 per cent, following a fall of 1.8 per cent in 1988.[9]

14. As a consequence, the share of total African exports in world trade has been on the decline since the early 1970s, except in 1980. In 1950, the region's exports stood at 5.2 per cent of world exports value and accounted for between 4.1 and 4.2 per cent during the 1960s and the 1970s. In 1985, however, this proportion was only 3.3 per cent. Africa's share in world trade further declined to 2.2 per cent in 1986 and 2.1 per cent in 1987 to reach 1.9 per cent in 1988 before recovering slightly in 1989 to 2.1 per cent.[10] Africa's export shares for most of its major primary commodities exhibited similar downward trends during both the 1970s and the 1980s. Between 1970 and 1987, for instance, world market shares rose only for 9 out of 26 major non-fuel primary commodities of export interest to the region (fish and fishery products, sugar, tea, bauxite and phosphates). For the group as a whole, the proportion declined from 9.1 to 4.1 per cent over the same period.[11] At the same time, the market shares for such important African export commodities as coffee, cocoa, cotton and copper have fallen by between 20 and 40 per cent of their 1970 levels.[12]

15. The above downward tendency was not arrested during the 1980s. In the case of 18 commodities covered by the Integrated Programme for Commodities and 10 core commodities of special export interest to African countries, the region's market shares declined during 1981-1987 as against the preceding decade (see table 2 below). On the contrary, other developing regions and many developed market economies showed that they did manage to increase their presence in the world markets for the above products.

16. The implications of this persistent marginalization of Africa in world trade are a worrying factor. According to World Bank estimates, had sub-Saharan African countries maintained their 1970 market share for non-oil primary exports and prices for these commodities remained the same, Africa's export earnings would have been around $US 9 or 10 billion a year higher during 1986-1987.[13] Even with depressed price levels as during the 1980s, maintaining the same export volumes could have brought Africa an additional $US 3-4 billion a year during 1986-1987.[14] It is, therefore, possible to draw certain lessons of major drawbacks within the context of primary commodity production in African countries from these statistical data.

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9 Economic Report on Africa, 1990, p.3.

10 Op. cit., p.3.

11 Africa's Commodity Problems, p.120.

11 Ibid., p.16.

13 From Crisis to Sustainable Growth, p.20.

14 Estimates of the ECA secretariat.

Table 2. Shares of different regions in exports of 18 and 10 core primary commodities* covered by the Integrated Programme for Commodities (in percentage)

Regions	18 commodities		of which 10 core	
	1970-1980	1981-1987	1970-1980	1981-1987
Total developing countries	60.72	57.77	73.87	71.94
Africa	14.99	11.42	19.00	16.11
Asia	20.35	21.80	22.13	23.28
Latin America	24.46	24.96	32.03	33.42
Developed market economies	33.58	35.98	20.92	21.72
Eastern Europe	4.93	4.35	4.33	3.99

Source: UNCTAD, Handbook of International Trade and Development Statistics 1989, TD/STAT.16, New York, 1990.

* The list of these commodities includes the following (with 10 core commodities marked with an asterisk*): bananas, bovine meat, cocoa beans*, coffee*, sugar*, tea*, vegetable oils and oilseeds, cotton and cotton yarn*, hard fibres and products*, jute and manufactures*, natural rubber*, timber, bauxite, copper*, iron ore, manganese ore, phosphate rock and tin*.

II. OVERVIEW OF INDIVIDUAL COUNTRIES INTERNAL CONSTRAINTS IN PRIMARY COMMODITY PRODUCTION AND EXPORT PROMOTION

17. Using some of the data in the preceding chapter, one can come to the conclusion that exogenous shocks have not been the only contributory factors to problems faced by Africa in the area of primary commodity production and exports. As justifiably stressed in the report of the High-Level Expert Group on Africa's Commodity Problems, other reasons for the failure of commodity sector are the low level of productivity, stagnant output and lack of competitiveness, including at times ill-advised government policies, unenlightened administration and organization, serious lack of agricultural research and extension services, poor knowledge of international markets, insufficient investment in transport and other infrastructure essential to effective and competitive production as well as economic policy framework that offers little incentives to both local and overseas investors. These factors combine as benchmarks of an inadequate environment in which productivity growth and competitiveness could hardly be maintained, let alone increased.[15]

18. The focus of the present study is mainly on the macro-economic policies and environment in which the commodity sector operates and which either tend to enhance its growth or discourage efficient production. There is enough evidence to suggest that in the past, policies by African countries have largely

15 Africa's Commodity Problems, p.30.

failed to take fully into account the constraints that impeded the expansion of Africa's primary commodity trade:

(a) Problems of ensuring competitiveness of exportable products arising from inappropriate pricing policies;

(b) Insufficient incentives for export promotion and excessive export taxation;

(c) Unrealistic exchange rate policies and stringent foreign exchange controls;

(d) Lack of supply dependability to ensure continued presence of African suppliers in world markets;

(e) Inflexible marketing mechanisms with overdependence on monopolistic State-owned trade organizations;

(f) Lack of adequate standardization and quality control;

(g) Control of trade and distribution channels by foreign entities, including in particular transnational corporations, and their restrictive business practices;

(h) Underdeveloped infrastructure incapable of enhancing mobility of goods and services; and

(i) Inadequate export credit and insurance schemes.

19. This list is by no means exhaustive. It can be expanded further, but the intended purpose was to isolate the impact of only a limited number of factors related mainly to macro-economic environment in which the commodity sector operates. Hence, the focus is on pricing policies, domestic and external marketing organization, trade regime, exchange rate arrangements and some other measures that directly influence commodity production. To this end, a sample group of 20 African countries has been analysed.[16]

20. The experience of these countries shows that, during the 1970s and first half of 1980s, the general tendency was to use price and trade controls through monopolistic State trading organizations combined with centralized credit and foreign exchange allocation as the main tools of economic policies. All of these instruments are closely interlinked and are part and parcel of the development model with priority role in both production and trade accorded to the public sector. Another characteristic feature is tight control over economic activities that included price formation.

A. Effects of price controls on primary commodity production and exports

21. In many of the countries reviewed, prices were administered (fixed or monitored) for the majority of exportable commodities throughout the last two decades. Although fixed prices per se do not necessarily represent an adverse phenomenon, the main problem was that not only did excessive controls lead to distorted price structures but that producer prices were below remunerative levels (i.e., below both production costs and import parity levels). As quoted in the report of the Expert Group, referred to earlier,

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16 These include Algeria, Botswana, Burundi, Egypt, Ethiopia, Ghana, Guinea-Bissau, Kenya, Madagascar, Malawi, Morocco, Senegal, Rwanda, the Sudan, the United Republic of Tanzania, Tunisia, Uganda, Zaire, Zambia and Zimbabwe. Most of data was derived from World Bank country reports and ECA secretariat country studies as well as from an unpublished ECA study "The impact of domestic policies on the production and trade of commodities in the African region with special reference to a selected number of countries".

the actual share accrued to actual producers of a number of major export commodities, calculated as the ratio of the nominal official producer price to the international reference price, ranged in 1987 for 21 African countries between the lowest of 0.21 per cent (for tobacco in Malawi) and the highest of only 1.51 per cent (for groundnuts in the Gambia).[17] The disincentive effect of low prices is quite evident in terms of reduction in supply of commodities in question, undermining export prospects.

22. In Egypt, for instance, both farm-gate and procurement prices for rice, wheat, cotton and sugarcane were much below international prices between 1970 and 1984, resulting in a steady decline in surplus production levels of exportable field crops. Similarly, in Zaire, the production of commodities of export importance like palm kernels, natural rubber and cocoa beans continued to decline because of imposed government control on prices while exports of such traditional products as palm oil and tea virtually disappeared. Another example is that of Ethiopia where exports of coffee, the country's single most important export commodity, were almost exclusively handled by the Coffee Marketing Corporation (ECMC) operating in the environment of fixed prices and severe restrictions on domestic trade until 1989. This had the effect of lowering the farm-gate price to an export parity level (net of export surtax and transaction tax) which was much below the domestic free market price. As a consequence, deliveries to ECMC stagnated and even declined, thus reducing exportable supply.

23. One of the side effects of excessive price controls, apart from curbing production, was that increased volumes of exportable commodities were channelled to smuggling in Zaire (coffee and cocoa), Ghana (cocoa) or Zambia (maize, meat and sugar), to name but a few. Overall, fixed prices have provided large implicit incentives for rent-seeking trading activities and arbitrage between official and parallel markets. On the basis of data gathered in respect of the above, it is evident that one of the components of the ill-devised pricing policies was excessive taxation of exports that tended to lower producer's share in the final price. For instance, prior to 1983, the Government of Zaire and public institutions collected on agricultural exports on average about 700 taxes only at the central level. In Ethiopia, until October 1989, coffee export surtax amounted to 30 per cent of the f.o.b. value of coffee exports.

B. Exchange rate over-valuation

24. Another aspect of domestic policies that has both a direct and an indirect bearing on commodity production and trade is the value of the country's currency. According to World Bank estimates, the general tendency for most of African countries during the late 1970s and the early 1980s was that of steady appreciation of real effective exchange rates, following widening budget deficits, rapidly growing inflation and failure to adjust policies to the decline in primary export prices.[18] In other words, overvalued exchange rates, coupled with export taxes and diminishing producer prices, undermined export performance since the 1970s.

25. The situation was particularly difficult for those countries whose currencies were not only overvalued but also lacked any mechanism for flexibility. Thus, a country like Ethiopia started losing its competitive edge in export markets for pulses, oil seeds, hides and skins due to persistent overvaluation of its national currency. The erosion of incentives to exporters through overvalued currency was further boosted by diminishing producer shares.

C. Inefficient marketing mechanisms

26. Export marketing systems in practically all of the countries examined were until recently based on large State monopolies in the form of marketing boards or corporations like, for instance,the Ghana Cocoa

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17 Africa's Commodity Problems, table 8, pp. 124-146.

18 From Crisis to Sustainable Growth, p.28.

Board, the Agricultural Export Authority in Morocco, the National Agricultural Marketing Board (NAMBOARD) in Zambia and others. Access of private traders to export activities was severely restrained by prohibitive licencing requirements or outright bans. As a result, the systems were generally characterized by absence of competition, inflexibility due to multi-stage process of domestic procurement, transportation, storage and actual export operations as well as by rigidities in employment and wage structures. Little incentives were provided to improve efficiency of State-owned trading organizations that in the 1980s began to run bigger operating losses. Quite logically, these developments required subsidies to these organizations in respect of most exported commodities despite low prices paid to producers, thus encouraging inefficient production and putting a squeeze on public finance.

27. Lack of a coherent strategy for marketing management, planning and effective trade promotion as well as continuous market research combined with rigid price structures to produce slow and inadequate adaptation to changes in world demand for primary commodities. Supply-side constraints and eroding competitiveness have contributed, for example, to the contraction for such traditional exports of Senegal as phosphates and canned fish. Similar situations have been observed in Burundi, Ghana, Guinea-Bissau, Morocco, Zambia and many other countries listed above (paragraph 19).

D. Low quality of exported commodities

28. One of the contributory factors to shrinking world market shares for African primary commodity exports was Africa's inability to maintain high-quality standards of exported goods, let alone to ensure reliable supply. This was largely attributable to disincentive effects of price controls, rigid marketing arrangements and other developments discussed earlier. Illustrative examples include those of Madagascar and Burundi. In the case of the former, uneven quality of produce for exports resulted in the loss of markets for cloves to such suppliers as Sri Lanka, Indonesia and Brazil that were able to meet higher quality requirements. As for Burundi, its fully washed arabica coffee was receiving a premium of 18 per cent over export price of partially washed coffee in 1983 which then eroded by nearly five times due to declining quality (high levels of humidity). In fact, for many coffee-exporting countries the share of fully washed coffee in total exports is dramatically low.

III. RECENT POLICY ADJUSTMENT RESPONSE AND IMPACT OF REFORMS ON COMMODITY SECTOR

29. The economic situation in the region had reached crisis proportions by the mid-1980s. The need to undertake policy reforms for the recovery of economies and the revitalization of genuine development became more than obvious, a recognition that was manifest in Africa's Priority Programme for Economic Recovery, 1986-1990 and the United Nations Programme of Action for African Economic Recovery and Development, 1986-1990. There is enough evidence to indicate that substantial policy reforms and other measures have been adopted as a follow-up to the above programmes. During the decade almost all African countries introduced at least one macro-economic management programme or another aimed at stabilization, structural adjustment and overall economic rehabilitation.[19] In total, over 30 countries of the region have embarked upon comprehensive programmes with a view to achieving radical transformation of their respective production bases. For the sample group of countries referred to earlier, all but three have introduced adjustment measures while at least 10 of them have launched such all-embracing adjustment programmes.[20] Others also envisage to do so in the future. Measures within the context of macro-

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19 Critical Economic Situation in Africa: United Nations Programme of Action for African Economic Recovery and Development 1986-1990: Mid-term Review of the Implementation of UN-PAAERD, Report of the Secretary-General, A/43/500, August 1988, p.23.

20 Including, among others, economic recovery programmes in the United Republic of Tanzania (1986) and Uganda (1987), major policy adjustments in Burundi and Rwanda, etc.

economic adjustment that have direct impact on commodity production and trade can be grouped into the following four large categories:

A. Liberalization of prices

30. One of the most important developments in national trade policies has been the encouragement of greater commodity production and trade through measures aimed at lessening excessive regulations and control, including, in particular, price controls. The most radical approach was that by Kenya where the system of fixing domestic prices for coffee and tea as leading export products had to be completely abandoned. In the majority of countries, however, the main objective was to raise fixed prices and only partially liberalize price formation as witnessed in Burundi, Ethiopia, Ghana, Senegal, the United Republic of Tanzania, Uganda, Zaire and Zambia. As a result, producers' share in international cocoa price, for instance, rose twofold in Ghana from 1986/1987 to 1988/1989, with strong positive response from farmers in terms of additional supply. In Ethiopia during the year 1988/1989, there was a 30 per cent cumulative increase in coffee deliveries for exports following an improvement in farm-gate prices and private traders' profit margins. Similar responses were to be seen in Zaire and Zambia with such important effects as reduction in smuggling and parallel market activities as well as expansion in cultivated areas and introduction of new crops.

31. However, the act of raising prices cannot be a panacea and, therefore, should be implemented cautiously and in conjunction with other measures including, in particular, tighter monetary and fiscal policies. The example of Uganda is most suggestive in this respect because it demonstrates the critical importance of terms of trade situation for developments in primary commodity production and exports. In Uganda, prices for coffee paid by the Coffee Marketing Board were increased by 182 per cent but this coincided with lower world markets and thus contributed to fuelling inflation since purchases from producers were immediately translated into higher incomes, while foreign exchange was earned at a considerable time lag and at unpredictable prices. Another factor was that of a weak banking system that could not sterilize surplus domestic earnings of coffee growers due, inter alia, to negative real interest rates.

B. Re-alignment of exchange rates

32. During the second half of the 1980s, nominal exchange rates in most African countries declined with consequent slide in real effective exchange rates. Depreciation of currencies have reportedly resulted in certain gains for the commodity sector in such countries as Ghana, Kenya, Malawi, Morocco, Zambia and Zaire. Many African economies, among them Botswana, Egypt, Ghana, Guinea, Guinea-Bissau, Malawi, Mauritania, Morocco, Nigeria, Zaire, Zambia and Zimbabwe, adopted more flexible systems in order to ensure that their exchange rates remained properly aligned. Such systems included, in certain cases, weekly or fortnightly auctions and two-tier exchange rates. Some countries resorted to use of floating rates.

33. However, the extent of the improvement and, therefore, the adequacy of the exchange rate adjustments to date are difficult to judge, in part because of the unprecedented volatility of major currencies and large changes in international prices for many of Africa's exportable primary commodities. This changing and uncertain international economic environment has significantly compounded the difficulty of Africa's external sector adjustment.

C. Relaxation of controls on domestic and foreign trade and re-organization of public sector

34. A new development in most African countries is a recognition of the role of the private sector as a complementary element in national development and this is manifest in general deregulation and liberalization of economic activities. Simultaneously, the scope of direct involvement of the State in the production and distribution is being gradually reduced. Governments are rescinding their previous export trading monopolies in a considerable number of countries such as Zambia (maize and fertilizers), Morocco (all

agricultural commodities), etc. At the same time, controls on domestic trade are being lifted. Efficiency of the marketing chain has improved as a result of increased competition from the private sector operators. A limited number of countries have proceded even further to liberalize import regime in order to improve overall allocation of resources, including foreign exchange, and optimize price structures. For instance, in Morocco import liberalization was followed by a reduction of quantitative restrictions and switch to tariffs as principal means of regulating imports, lowering of tariffs and special import tax, elimination of statistical tax on exports, removal of bans on certain import categories and relaxation of licencing requirements for importers. Reforms with similar focus were introduced in Burundi and the United Republic of Tanzania.

35. Another element of the policy reforms undertaken by African Governments relates to the management of public enterprises. The generally poor financial performance of these enterprises, especially those engaged in export/import operations which required considerable subsidies, has led to budgetary burdens and distortions in resource allocation with resultant inefficiency in capital utilization. Hence, many countries were prompted to take measures aimed, first of all, at improving their management; secondly, pulling out from a number of sectors leaving them to private enterprises. Measures in the former category included management or performance contracts and other forms of increasing operational autonomy of public enterprises, privatization and liquidation of loss-making State-owned corporations, and better public investment programmes.

D. Improved public finance and resource allocation

36. Most African Governments have aimed at lowering their budget deficits and reducing or re-directing public expenditures in order to increase domestic savings and improve resource allocation. Available data indicate that average total government expenditure in constant prices decline in 1986, following an increase of 32 per cent between 1980 and 1985.[21] During the last few years, government policies remained predominantly contractionary with only a slight growth in public expenditure.[22] Government deficits, either as a proportion of total expenditure or revenue or as a share of GDP, have fallen sharply in most countries during the last four to five years. One of the ways used to restructure public expenditures was through reduction in nominal wages and increased salary flexibility that helped to lower the share of wage bill in central government budgets. Other policy measures included those aimed at promoting efficient use of resources and optimizing their allocation through increases in interest rates and tightened fiscal policies. However, in the sample group under review only 10 countries have reportedly raised or decontrolled interest rates while market-oriented positive real lending rates have been maintained only in a handful of them like Kenya, Zimbabwe or Malawi. In the latter case, positive real rates were only achieved by 1989. For many countries, real interest rates remained negative like in Algeria or Uganda where nominal rates even dropped despite growing inflation.

E. Brief overview of reforms impact on commodity sector performance

37. At the present moment, it might be still premature to fully evaluate the effects of structural adjustment pursued by African countries due to several factors. First among them is the recent origin of many of the reform programmes and time lag in actual growth response to new policies. Moreover, the severity of Africa's structural economic disequilibria and vulnerability of most countries to external disturbances tend to obscure the impact of the reform efforts on economic performance in general and commodity production and exports in particular. This notwithstanding, recent data suggest that structural adjustment is beginning to improve, albeit marginally, the performance of the primary export sector in a number of African countries.

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21 Mid-term Review, p.24.

22 Economic Report on Africa, 1990, p.2.

38. Hence, a combination of nominal devaluations and market liberalization led to rising real producer prices in many countries. The immediate response of producers to the higher price levels has been significant in some cases like for cocoa in Ghana. However, the lack of complete and sufficiently disaggregated data for the last three years makes it difficult to provide any detailed analysis in this respect. Nonetheless, general trends for 32 primary commodities exported by African countries reveal that in 1987 export volumes increased for 13 products, continued to fall for 15 and were stagnant for 4 of them. This does not imply any significant improvement over the situation that prevailed during 1983-1986. Rather it represents a reversal of declining tendency during the preceding decade.[23]

39. Some of the programme elements, such as re-alignment of exchange rates and rises in producer prices, have not always produced the full expected benefits because of the significant structural rigidities in many African countries. At the same time, these unsatisfactory results could be attributed to the fact that reforms have not been consistently pursued by all countries. This underscores the necessity to introduce comprehensive programmes with policy mix embracing improved resource allocation through tightened credit, reduction or elimination of budget deficits, relaxed controls on both domestic and external trade, measures to increase efficiency of the public sector and real depreciation of national currencies as well as other measures, which was not always the case. Anyway, various recent studies show that there is a close correlation between programme implementation, achievement of adjustment objectives and improvement in economic performance.[24]

40. At the same time, the implementation of structural adjustment programmes has given rise to several concerns voiced, inter alia, by the ECA Conference of Ministers as recent as May 1989.[25] It emphasized that human and social costs of adjustment have often been out of proportion with these programmes' real or intended benefits. African Governments are now, therefore, more aware of the need to address the social impact of reform implementation. In other words, the design of the programmes has to pay adequate attention to maximizing social benefits and minimizing costs of adjustment. However, short-term costs of adjustment have to be weighed against the longer-term costs of not adjusting at all.

41. The experience of the last few years also underscores the critical importance of terms of trade developments for the sustainability of the reforms since, in a number of cases, adjustment programmes with a good chance of success foundered because of unfavourable movements in international prices despite generally good trends in this respect during the last years (terms of trade improved for Africa by 2.4 per cent in 1988 and by 8.1 per cent in 1989).[26] On the contrary, certain countries, especially coffee exporters, suffered severe setbacks because of falling world market prices which endangered reform implementation.

IV. CONCLUSIONS AND RECOMMENDATIONS

42. The brief overview of current trends in the primary commodity exports suggests that Africa is currently facing a serious crisis in this sector that intensified during the 1980s. Countries of the region find it increasingly difficult even to sustain present levels of growth from commodity export earnings due to both external and internal problems. Consequently, a new approach to primary commodity crisis is essential and

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23 See UNCTAD Commodity Yearbook 1989, TD/B/C.1/STAT.6, New York, 1989.

24 As argued by Saleh M. Nsuli in "Structural Adjustment in Sub-Saharan Africa", Finance and Development, September 1989, p.30.

25 See "African Alternative Framework to Structural Adjustment Programmes for Socio-economic Recovery and Transformation, E/ECA/CM.15/6/Rev.3.

26 Economic Report on Africa, 1990, p.26.

should include a new, more aggressive strategy in this sector on the part of African countries. Similarly, real commitments are required from the industrialized nations with a view to creating an enabling environment for the continent's primary export promotion. The international community should, therefore, agree to change its attitude and trade policies towards commodity exports from African countries as part of the framework adopted under the UN-PAAERD.

43. The major burden of adjustment will in any case have to be borne by African countries themselves. As could be inferred from the analysis above, a lot of problems existed on the supply side, with production constrained by a whole web of ill-devised policies and stringent controls. Hence, the primary objective in revitalizing the primary commodity sector and maximizing its contribution to economic development of the region will be to increase its overall efficiency and competitiveness and reverse the declining trends in exportable supply.

44. An argument frequently advanced against the vigorous expansion of commodity exports is that the generally inelastic world demand implies that aggressive supply behaviour by any producer could ultimately affect the whole sector by depressing the already low prices. Although this is true as a general assumption, in the highly competitive world markets, it was exactly the aggressive exporting attitude on the part of certain developing countries from other regions during the 1970s and 1980s that eroded Africa's market shares. African production for most commodities, excluding cocoa, coffee and copper, is a relatively small proportion of the world market and in this view does not affect price levels to a large extent. Since prospects for significantly higher prices for most primary commodities are poor within the foreseeable future, export earnings must grow through increasing the supply of such products, improving their quality and diversifying the export base. Competition is a must in the world market since attempts at insulating the producers from competition generally lead to stagnation and declining efficiency.

45. It should be stressed that such an approach does not under any circumstances imply that overdependence on primary commodity exports should be perpetuated or that Africa should aim at further depressing commodity prices through the supply glut. Neither does it suggest that primary commodity exports should be promoted at the expense of diversification of exportable production. On the contrary, the rationale for the above is not disputed. The present document focuses on the measures aimed at ensuring that earnings from primary commodity exports are increased to the maximum extent possible under the conditions prevalent in world markets. Therefore, the following practical steps could be recommended in this regard:[27]

(a) At national level

(i) Create an enabling economic environment in order to make it more conducive to accelerated growth in, among other sectors, primary commodity exports and ensure that macro-economic policies, notably exchange rate, foreign trade regime, taxation, pricing, resource allocation and others are market-oriented and designed and implemented in such a way as to give impetus to export sector and guarantee export-led growth of the economies;

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27 These recommendations are largely based on the findings of the report Africa's Commodity Problems cited above, ECA document "Strategies for Revitalization, Recovery and Growth of African Trade in the 1990s" (E/ECA/TRADE/89/25/Rev.3) that at the time of writing this paper was yet envisaged for submission to the extraordinary session of the Conference of African Ministers of Trade in December 1990, as well as on proposals contained in ECA document "African Commodity Policies and Options" (E/ECA/TRADE/93, September 1987) and OAU paper "Africa's Reaction to the Report Africa's Commodity Problems: Towards a Solution" (doc. COM./PLEN.3(II) Rev.1, August 1990).

(ii) formulate, within the overall development strategy, a primary commodity export promotion programme, including all supportive policy measures, with a view to increasing the efficiency and competitiveness of this sector and enabling it to recapture lost markets for traditional export products;

(iii) lessen controls and, whenever possible, completely liberalize domestic pricing policies for export commodities in order to make this sector more flexible and adaptable to world market conditions and at the same time ensure that sufficient incentives are provided to producers thereby aiming at reaching more remunerative price levels;

(iv) adopt additional incentive measures for export commodity producers such as better access of small producers to production inputs, lowering input costs through a system of customs duty exemptions for crucial raw materials, spare parts and machinery, export proceeds retention schemes and relaxed taxation policy in order to move away from excessive reliance on taxing exports as the main tax base;

(v) improve the efficiency of domestic and export marketing chains by shifting towards more flexible and less centralized institutional mechanisms, transforming parastatals into self-financing and autonomous enterprises, eliminating export monopolies and liberalizing and facilitating terms of admission to export activities, simplifying administrative procedures for external trade activities and clearly defining the tasks of each category of trade operators;

(vi) aim at more direct involvement of producers into marketing of their commodities through encouraging the creation of producer associations and co-operatives and their external marketing arms that should also ensure consolidation of supply;

(vii) critically assess opportunities for expanding primary commodity exports to new market outlets, including in particular, other developing regions and Eastern Europe, and adopt export promotion programmes aimed at developing these markets;

(viii) make better use of various international marketing mechanisms available for primary commodities such as auctions, long-term contracts, counter-trade and particularly commodity exchanges and future markets so as to derive maximum benefits from utilizing these arrangements, enlarge direct marketing of primary commodities in consumer countries;

(ix) formulate and initiate more effective supply management policies, including buffer stocks, long-term adjustment and rationalization of production, to guarantee dependability of supply and greater responsiveness of supply to changes in demand;

(x) introduce policies through providing for systematic improvement over time of storage and transportation facilities and improving access of traders and producers to transportation and distribution channels in order to enhance competitiveness of export products.;

(b) <u>At regional level</u>

(i) enhance co-operation within the regional producer organizations for the purpose of improving market supply management and dependability, co-ordination of sales

strategies, market research, product development as well as new uses for traditional products;

(ii) expand comprehensive trade information networks utilizing electronic data processing techniques at regional and subregional levels in order to provide timely and accurate information on supply and demand situation and improve data exchange among African producers and traders;

(iii) improve research on new uses for primary commodities of export interest to Africa, increase resource allocation for research and product development, encourage better co-operation and communication among African research institutions, increase efforts to apply known and newly developed technologies to African commodity production;

(c) At international level

(i) encourage joint ventures and partnerships through long-term compacts and contracts among African and developed countries with the objective of gradually transferring primary commodity processing from the developed to commodity-producing African developing countries;

(ii) urge developed countries to re-negotiate or re-establish international commodity agreements (ICAs) with price stabilizing provisions in respect of primary commodities of major export interest to African countries; wherever possible also enter into long-term producer/consumer agreements with buyer countries;

(iii) find ways and means of persuading industrialized countries to abolish quantitative restrictions on imports of primary commodities originating in Africa and liberalize such controls progressively, including in particular, the EEC quotas on agricultural products as well as high internal duties and taxes on tropical beverages;

(iv) engage in new dialogue aimed at improving the effectiveness of the export earnings shortfalls compensatory schemes including STABEX and SYSMIN of the EEC and the Contingency and Compensatory Financing Facility of the IMF through increased resource availability to these schemes, enlarged coverage of commodities eligible for compensation, simplified and facilitated procedures for calculating export shortfalls.